Telecommunications – Malaysia

MARKET WEIGHT
(Maintained)

2Q25: Results In Line; Continued Pre-To-Postpaid Migration

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Highlights

- **Broadly, 2Q25 sector earnings came in within expectations,** except for Axiata and CelcomDigi. After the 2Q25 results announcement, we cut our earnings forecasts by 6%.
- **The quarter was characterised by:** a) 2% qoq service revenue growth, b) cost discipline, c) encouraging enterprise business pipeline, and d) robust demand for fibre.
- **Maintain MARKET WEIGHT;** catalysts include Axiata's infrastructure asset monetisation and CelcomDigi's synergistic savings by 2027. Top picks: CelcomDigi, TIME and Axiata.

Analysis

- **2Q25: Within expectations.** The quarter's core earnings recorded promising growth at 8% yoy and 14% qoq to RM1,552m. Earnings were largely within expectations except for CelcomDigi and Axiata. CelcomDigi's 2Q25 bottom line was weighed down by soft prepaid revenues and higher provisions for doubtful debts (due to elevated long-term customer contracts). Axiata's weaker-than-expected 1H25 earnings from continued operations (-36% yoy) reflected XLSmart integration costs and lower associate earnings. Separately, we note that the mobile postpaid segment is reporting encouraging subscriber growth, primarily driven by enhanced data plan offerings, higher family plan penetration and continuous pre-to-postpaid migration. Postpaid ARPUs however, appear to be under pressure (Maxis: -1% qoq; CelcomDigi: flat qoq) in light of aggressive bundling offerings in the market to reduce churn.
- **In essence, the quarter was characterised by:** a) a 2% qoq service revenue growth, driven by growing postpaid base but partially offset by prepaid competition, b) cost discipline, c) robust enterprise project pipeline, and d) home fibre players continuing to benefit from strong broadband demand, supported by fixed-mobile convergence strategies and bundling rebates.
- **Marginal EBITDA margin compression due to expanded SST.** Following Malaysia's expanded sales and services tax (SST) effective Jul 25, CelcomDigi and Maxis guided an approximate 1% drag on their FY25 EBITDA. Industry players are collectively engaging with the government for reconsideration, though a full exemption appears unlikely, as the expanded SST applies to a wide range of items including infrastructure sharing, site rentals, and hardware purchases. CelcomDigi expects a worst-case scenario to lead to an extra annualised cost of RM100m towards its EBITDA.
- **Key events to look out for in 2H25 include:** a) EDOTCO benefitting from U Mobile's capex spent to roll out the 5G network; b) gradual network expansion for TM and TIME, with single dwelling offerings being the main focus; c) shareholding outcome of Digital Nasional (DNB) including the stake sale of MOF's 42% equity in DNB; and d) potential monetisation of Axiata's 63% equity stake in EDOTCO.

Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
CelcomDigi	BUY	4.30	8.5	4.9
TIME	BUY	6.00	11.6	5.3
Axiata	BUY	3.00	9.9	3.2

Source: Bloomberg, UOB Kay Hian

Core Net Profit (2Q25)

	2Q25 (RMm)	% chg qoq	% chg yoy
Axiata	163.8	>100	(5.5)
CelcomDigi	439.1	2.2	7.0
Maxis	398.0	7.3	11.8
TM	438.1	9.2	10.1
TIME dotCom	113.4	(3.8)	6.3
Big 2*	837.1	4.6	9.3
Fixed Line	551.5	6.2	9.3
Sector Total	1,552.4	14.0	7.5

** Big 2 stands for CelcomDigi and Maxis*
Source: UOB Kay Hian

Core Net Profit (1H25)

	1H25 (RMm)	% chg yoy	Comment
Axiata	206.3	(36.1)	Below
CelcomDigi	868.8	(2.0)	Below
Maxis	769.0	8.5	Inline
TM	839.3	5.6	Inline
TIME dotCom	231.3	6.5	Inline
Big 2	1,637.8	2.6	
Fixed Line	1,070.6	5.8	
Sector Total	2,914.7	(0.6)	

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 8 Sep 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2025F (x)	PE 2026F (x)	EV/EBITDA 2025F (x)	EV/EBITDA 2026F (x)	Dividend Yield 2025F (%)	Dividend Yield 2026F (%)
Axiata Group	AXIATA MK	BUY	2.62	3.00	24,066	56.3	40.4	8.5	7.7	3.8	3.8
CelcomDigi	CDB MK	BUY	3.70	4.30	43,407	31.0	27.0	9.9	9.7	3.2	3.7
Maxis	MAXIS MK	BUY	3.59	4.20	28,128	18.7	17.5	8.5	7.8	4.9	5.2
Telekom Malaysia	T MK	HOLD	6.99	7.00	26,826	15.6	14.8	5.8	5.4	4.8	4.7
TIME dotCom	TDC MK	BUY	5.04	6.00	9,318	18.7	16.9	11.6	11.2	5.3	5.9

Source: Bloomberg, UOB Kay Hian

Valuation/Recommendation

- **Maintain MARKET WEIGHT.** We expect the sector to exhibit stable operating parameters in the near term. Good cost discipline and relatively benign capex intensity will drive the sector to deliver an average dividend yield of 4%. We maintain our MARKET WEIGHT call on the sector as we believe the unresolved shareholding structure of DNB as well as the eventual exit of MOF Inc from DNB may create some uncertainty among wireless players and dampen valuation should the matter continue to drag on. The sector has outperformed the FBMKLCI by 6% ytd and currently trades at +2SD EV/EBITDA of 8x. **Top picks: CelcomDigi, TIME and Axiata.**
- **Key risks to our investment thesis** include: a) earnings erosion for fixed-line operators due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.
- **CelcomDigi (CDB MK/BUY/Target: RM4.30).** We expect merger synergies to yield a projected cost savings of RM800m annually beyond 2027 (steady state), with elevated merger costs already sunk in in 2024. Consequently, we project a three-year earnings CAGR of 4% over 2024-27. Key re-rating catalysts include monetisation of tower assets (selling to EDOTCO) and paying out special dividends in the near term.
- **Axiata (AXIATA MK/BUY/Target: RM3.00).** Against a backdrop of balance sheet deleveraging and operating cash flow discipline, we expect management to pay out a DPS of 10 sen for 2025. This translates to a dividend yield of 4%. Key re-rating catalysts include: a) stronger opco performance in the upcoming quarters; b) narrowed Link Net losses; and c) the listing of EDOTCO, allowing for a share price discovery.

Sector Catalyst/Risk

- **UMobile plans to deploy 400-500 new 5G sites over the next six months.** As part of Malaysia's second 5G wholesale network rollout, UMobile targets ti deploy 400-500 new 5G sites nationwide (mainly in greenfield and residential areas), with completion expected by 1Q26. This is set to boost UMobile's countrywide portfolio of 2,000 5G sites (as of Aug 25), complemented by plans to colocate 5G antennas on its existing 4G infrastructure. Key beneficiaries of the rollout are TM, OCK Group and EDOTCO.
- **EDOTCO monetisation at a potential valuation of RM17b-21b.** Following the completion of EDOTCO's exit from its Myanmar tower operations (Jun 25), Axiata is well-positioned to advance its plans to monetise its investment in EDOTCO. Based on a trade sale multiple of 10-12x EV/EBITDA, EDOTCO yields an enterprise value of RM17b-21b. This could net Axiata RM7b-9b in equity value or 29-38% of Axiata's current market capitalisation of RM24b.
- **Additional shareholder advance of RM600m invested in DNB.** In a Bursa Malaysia announcement, both CelcomDigi and Maxis announced that they had each contributed an additional shareholder advance of RM116.7m on 15 Aug 25 at the request of Digital Nasional (DNB). Concurrently, YTL and MOF Inc also injected RM116.7m and RM250.2m respectively into the additional shareholder advance exercise, bringing the total to RM600.2m. DNB's shareholding structure remains unchanged, with MOF Inc retaining its position as the largest shareholder (at 42%), while CelcomDigi, Maxis and YTL each hold a 19% stake. We believe DNB's near-term outlook remains clouded by its future shareholding outcome pending MOF Inc.'s exit from DNB.

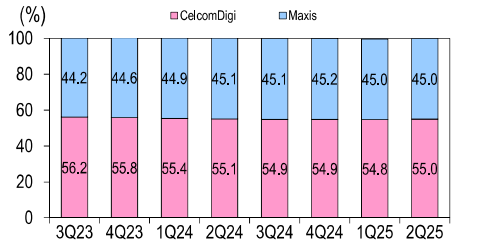
CelcomDigi: Rm700m-800m Steady-State Opex Savings After 2027

(RM'm)	FY23	FY24	YTD25 (as at 2Q25)	TOTAL (as at 2Q25)
P&L SAVINGS	157	345	55	557
CAPEX AVOIDANCE	209	1,380	135	1,724
Total Gross Synergy	366	1725	190	2,281

On track to achieving 2027 expectations:
Steady-state savings ~RM700m to ~RM800m
NPV Synergies ~RM8b

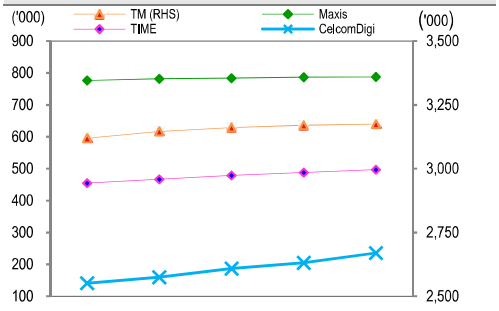
Source: CelcomDigi

Telco Revenue Market Share



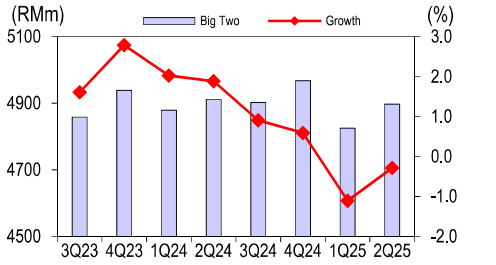
Source: Respective companies

Home Fibre Subscribers



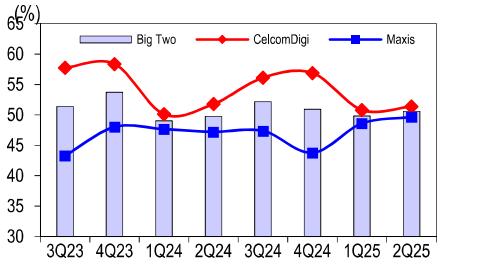
Source: Respective companies

Big Two's Quarterly Service Revenue



Source: Respective companies

Quarterly EBITDA Margin



Source: Respective companies

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